

## TAXATION OF LIFE-INSURANCE COMPANIES FOR TAXABLE YEARS BEGINNING IN 1952

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JUNE 26, 1952.—Committed to the Committee of the Whole House on the  
State of the Union and ordered to be printed

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Mr. DOUGHTON, from the Committee on Ways and Means, submitted  
the following

### REPORT

[To accompany H. R. 7876]

The Committee on Ways and Means, to whom was referred the bill (H. R. 7876) relating to the taxation of life-insurance companies, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

In the Revenue Act of 1950 the formula used for computing the net income of life-insurance companies was amended. This action was necessitated by the fact that the formula previously used, which had been in effect since the Revenue Act of 1942, resulted in no tax being due from any company on its life-insurance income for the years 1947 and 1948. The provisions of the Revenue Act of 1950 were made effective only for the taxable years 1949 and 1950.

In the Revenue Act of 1951 a somewhat different method of taxing life-insurance companies was provided. This method was intended to produce substantially the same results as the revised formula embodied in the Revenue Act of 1950 except that it was simpler in its conception and application. Moreover, it contained a provision intended to relieve from a substantial part of the tax those companies whose investment income is inadequate with respect to their policy obligations.

For some years studies have been made concerning the possible desirability of applying different principles and techniques to the taxation of life-insurance companies. Consideration of possible alternative methods of taxing life-insurance companies would obviously require extended time. The need for legislation in 1952 is apparent since if the provisions of the present law are not continued the demonstrably inadequate formula of the 1942 law would be applied. In

view of this situation it is the opinion of your committee that the method adopted in 1951 should be continued one additional year. Your committee's bill, therefore, merely applies the 1951 method of taxation to 1952 income.

### CHANGES IN EXISTING LAW

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as introduced, are shown as follows (new matter is printed in italics, existing law in which no change is proposed is shown in roman):

#### INTERNAL REVENUE CODE

#### SEC 201. LIFE INSURANCE COMPANIES.

##### (a) IMPOSITION OF TAX.—

(1) IN GENERAL.—There shall be levied, collected, and paid for each taxable year upon the adjusted normal-tax net income (as defined in section 202) and upon the adjusted corporation surtax net income (as defined in section 203) of every life insurance company taxes computed as provided in section 13 (b) and in section 15 (b). In lieu of the taxes imposed by the preceding sentence, there shall be levied, collected, and paid for taxable years beginning in 1951 and 1952 upon the 1951 and 1952 adjusted normal-tax net income (as defined in section 203A) of every life insurance company a tax equal to the sum of the following:

3¼ per centum of the amount thereof not in excess of \$200,000, plus  
6½ per centum of the amount thereof in excess of \$200,000.

\* \* \* \* \*

#### SEC. 203A. 1951 AND 1952 ADJUSTED NORMAL-TAX NET INCOME.

(a) 1951 and 1952. ADJUSTED NORMAL-TAX NET INCOME.—For the purposes of section 201, the term "1951 and 1952 adjusted normal-tax net income" means the normal-tax net income plus eight times the amount of the adjustment for certain reserves provided in section 202 (c) and minus the reserve interest credit, if any, provided in subsection (b) of this section.

(b) RESERVE INTEREST CREDIT.—For the purposes of subsection (a), the reserve interest credit shall be an amount determined as follows:

(1) Divide the amount of the adjusted net income (as defined in subsection (c)) by the amount of the required interest (as defined in subsection (d)).

(2) If the quotient obtained in paragraph (1) is 1.05 or more, the reserve interest credit shall be zero.

(3) If the quotient obtained in paragraph (1) is 1.00 or less, the reserve interest credit shall be an amount equal to 50 per centum of the normal-tax net income.

(4) If the quotient obtained in paragraph (1) is more than 1.00 but less than 1.05, the reserve interest credit shall be the amount obtained by multiplying the normal-tax net income by 10 times the difference between the figures 1.05 and such quotient.

(c) ADJUSTED NET INCOME.—For the purposes of subsection (b) (1), the term "adjusted net income" means the net income computed without any deduction for tax-free interest minus 50 per centum of the amount of the adjustment for certain reserves provided in section 202 (c).

(d) REQUIRED INTEREST.—For the purposes of subsection (b) (1), the term "required interest" means the total of—

(1) The sum of the amounts obtained by multiplying (A) each rate of interest assumed in computing the taxpayer's life insurance reserves by (B) the means of the amounts of the taxpayer's adjusted reserves computed at that rate at the beginning and end of the taxable year,

(2) 2 per centum of the reserve for deferred dividends, and

(3) Interest paid.

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#### SEC. 433. EXCESS PROFITS NET INCOME.

(a) TAXABLE YEARS ENDING AFTER JUNE 30, 1950.—The excess profits net income for any taxable year ending after June 30, 1950, shall be the normal-tax

net income, as defined in section 13 (a) (2), for such year increased or decreased by the following adjustments:

(1) ADJUSTMENTS.—

(A) Dividends Received.—The credit for dividends received shall apply, without limitation (except the limitation relating to dividends in kind), to all dividends on stock of all corporations, except that no credit for dividends received shall be allowed with respect to dividends (actual or constructive) on stock of foreign personal holding companies or dividends on stock which is not a capital asset;

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(H) Life Insurance Companies.—In the case of a life insurance company, there shall be deducted from the normal tax net income the excess of (1) the product of (i) the figure determined and proclaimed under section 202 (b) and (ii) the excess profits net income computed without regard to this subparagraph, over (2) the adjustment for certain reserves provided in section 202 (c). If the excess profits credit for the taxable year is computed under section 436, there shall be deducted from the normal tax net income only 50 per centum of the amount determined under the preceding sentence. In the case of taxable years beginning in 1951 and 1952 there shall be used, in lieu of the figure referred to in clause (i) of the first sentence of this subparagraph, the figure .87.

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